

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>LEXINGTON WORTH TWP UTILITY AUTHY</b>	County <b>SANILAC</b>
Audit Date <b>2/29/04</b>	Opinion Date <b>7/2/04</b>	Date Accountant Report Submitted to State: <b>8/31/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>STEWART, BEAUVAIS &amp; WHIPPLE PC</b>			
Street Address <b>1979 HOLLAND AVENUE</b>	City <b>PORT HURON</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature <i>Stewart, Beauvais &amp; Whipple</i>		Date <b>8-31-04</b>	

**LEXINGTON-WORTH TOWNSHIPS UTILITIES  
AUTHORITY**

**ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
FEBRUARY 29, 2004**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



# LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

To the Lexington-Worth Townships  
Utilities Authority Board

We have audited the accompanying Financial Statements of the Lexington-Worth Townships Utilities Authority as of and for the year ended February 29, 2004, as listed in the Table of Contents. These Financial Statements are the responsibility of the Authority. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contain in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the Lexington-Worth Townships Utilities Authority as of February 29, 2004 and the results of its operation and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated July 2, 2004, on our consideration of the Lexington-Worth Townships Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

*Stewart, Beauvais & Whipple*  
Certified Public Accountants

July 2, 2004

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

BALANCE SHEET  
FEBRUARY 29, 2004

ASSETS

**Current Assets:**

Cash and cash equivalents	\$ 6,492
Accounts receivable -	
Water service	19,170
Inventory	2,100
	<u>27,762</u>

**Property, Plant and Equipment:**

Land	13,396
Easement	2,500
Building	133,629
Water Tower	528,569
Vehicles	16,350
Equipment	13,588
	<u>708,032</u>
Less-accumulated depreciation	( 33,058)
	<u>674,974</u>

\$ 702,736

LIABILITIES AND RETAINED EARNINGS

**Current Liabilities:**

Accounts Payable	\$ 23,425
Accrued Salaries	1,666
	<u>25,091</u>

**Retained Earnings**

677,645

\$ 702,736

See Notes to  
Financial Statements

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED FEBRUARY 29, 2004

**Operating Revenues:**

Sales of services	\$ 281,986
Miscellaneous Revenue	16
	<u>282,002</u>

**Operating Expenses:**

Salaries and fringes	95,345
Operating supplies	32,602
Contracted services	16,254
Insurance	12,683
Utilities	3,648
Repairs and maintenance	1,149
Gas and Oil	830
Printing and Publishing	701
Water usage	146,380
Water testing and fees	778
Postage and copies	4,176
Seminars, dues and fees	2,668
Depreciation	19,232
Other	3,089
	<u>339,535</u>

Operating Loss	( 57,533)
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**Non-Operating Revenues (Expenses):**

Interest revenue	134
Interest expense	( 150)
Embezzlement loss	( 2,575)
	<u>( 2,591)</u>

Net loss	( 60,124)
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Retained earnings at beginning of year	<u>737,769</u>
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Retained earnings at end of year	<u>\$ 677,645</u>
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See Notes to  
Financial Statements

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 29, 2004

**Cash Flow From Operating Activities:**

Operating loss for the year	\$ ( 57,533)
Adjustment to reconcile operating income to net cash provided by operating activities - Depreciation	19,232
Changes in assets and liabilities- (Increases) decreases in- Receivables	21,764
Increases (decreases) in- Accounts payable	12,613
Accrued salaries	<u>1,227</u>
Net Cash Used by Operating Activities	<u>( 2,697)</u>

**Cash Flow From Non-Capital Financing Activities:**

Embezzlement loss	( 2,575)
Interest	<u>( 150)</u>
Net Cash Used by Non-Capital Financing Activities	<u>( 2,725)</u>

**Cash Flow From Investing Activities:**

Interest earned	<u>134</u>
Net decrease in cash and cash equivalents for the year	( 5,288)
Cash and cash equivalents at beginning of year	<u>11,780</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,492</u></u>

See Notes to  
Financial Statements

# LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 29, 2004

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

**GENERAL STATEMENT-** The Lexington-Worth Townships Utilities Authority was created under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, by the Townships of Lexington and Worth, both located in the County of Sanilac, Michigan. The purpose of this Authority is to acquire, own, improve, enlarge, extend and operate a water supply system and/or wastewater collection and treatment system in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended.

The governing body of the Authority is a six (6) member Board of Trustees made up of three voting representatives for each Township.

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America for local governments including those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled, "Audits of State and Local Governmental Units" and by the Financial Accounting Standards Board (when applicable). The Authority does not apply the Financial Accounting Standards Board Statements and Interpretation, Accounting Procedures issued after November 30, 1989. The more significant accounting policies of the Authority are described below:

**BASIS OF ACCOUNTING** - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Lexington-Worth Townships Utilities Authority is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

**FIXED ASSETS** – The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus.

The Authority is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activity are included on its Balance Sheet.

Depreciation on the recorded exhaustible fixed assets is charged as an expense against operations. Accumulated depreciation is reported on the Balance Sheet. Depreciation is computed on the straight-line method over the estimated useful life of the related asset as follows:

Plant and equipment	50 years
Equipment	5 years

**ESTIMATES** – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):**

**COMPARATIVE STATEMENTS** – Comparative statements have not been presented because only the Balance Sheet was audited as of February 29, 2004, in which an unqualified opinion was issued dated August 8, 2003.

**NOTE 2 – CASH:**

The Lexington-Worth Township Utilities Authority's deposits consist of a checking account. At February 29, 2004 the carrying amounts and bank balance of the Utility Authority's cash are \$6,492 and \$7,091, respectively. The bank balance is insured by FDIC.

**NOTE 3 – ACCOUNTS RECEIVABLE – WATER SERVICE:**

The Accounts Receivable – Water service of \$19,170 represents billed user charges due at February 29, 2004. All water charges shall be deemed delinquent if not paid prior to the last day herein provided for payment of the same, and penalty of 5% shall be charged for each month, or fraction thereof, that the same shall remain delinquent. Provided further, that the water supply to any premises where the charges have been delinquent for a period of one (1) month or more may be shut off and withheld until payment of such delinquent charges is made to the Authority.

All water charges shall be a lien upon the premises from and after their due date, and shall be assessed against said premises. All unpaid water charges which from the first day of June of each year have remained delinquent for a period of one (1) month shall be reported by the Authority and may require such charges to be transferred and reassessed upon the Township tax rolls in the same manner that unpaid special assessments are transferred and reassessed upon said tax roll. Delinquent water taxes may also be collected by suit brought in the name of the Lexington-Worth Townships Utilities Authority against the owner of the premises.

**NOTE 4 - ACCOUNTS RECEIVABLE – INSURANCE SETTLEMENT:**

During the current year, the former Treasurer was prosecuted for fraud. Part of the settlement was that \$39,338 was to be repaid to the Authority, \$36,763 is related to the prior year and \$2,575 is related to the current year. Management recorded a receivable for the bonded amount of \$25,000 at February 29, 2004, which was received in the current year and recorded the balance as an embezzlement loss of \$11,763 in the prior year and \$2,575, in the current year since management believes these amounts are unlikely to be collected.

**NOTE 5 – PROPERTY, BUILDINGS AND EQUIPMENT:**

The Lexington-Worth Townships Utilities Authority was established as an operating authority with the water utility distribution line, belonging to the Townships of Lexington and Worth Townships. Water is purchased through agreement with the Village of Lexington, as the Village owns the Water Utility Plant. The following is a summary of the property and equipment owned by the Lexington-Worth Townships Utilities Authority:

**NOTE 5 – PROPERTY, BUILDINGS AND EQUIPMENT – (cont'd):**

<u>Description</u>	<u>Original Costs</u>	<u>Accumulated Depreciation</u>	<u>Book Value (Net)</u>
Land	\$ 13,396	\$ -	\$ 13,396
Easement	2,500	-	2,500
Building	133,629	4,009	129,620
Water Tower	528,569	15,857	512,712
Truck	16,350	8,175	8,175
Equipment	<u>13,588</u>	<u>5,017</u>	<u>8,571</u>
Total	<u>\$ 708,032</u>	<u>\$ 33,058</u>	<u>\$ 674,974</u>

Depreciation expense for the year ended February 29, 2004 is \$19,232.

**NOTE 6 – RETAINED EARNINGS**

The component of retained earnings at February 29, 2004, is as follows:

Investments in Property and Equipment	\$ 674,974
Working Capital	\$ 2,671



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Lexington-Worth Townships  
Utilities Authority Board

We have audited the financial statements of the Lexington-Worth Townships Utilities Authority for the year ended February 29, 2004 and have issued our report thereon, dated July 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Lexington-Worth Townships Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Lexington-Worth Townships Utilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lexington-Worth Townships Utilities Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described as follows:

### **Control over the Financial Recordkeeping Process.**

For the year ended February 29, 2004, a general ledger was implemented which helps to strengthen internal control. Also mitigating controls were in place to try and separate accounting functions as much as possible.

However, in a small office it is difficult to separate accounting function thus provide adequate internal control. The Authority has this lack of segregation of duties.

We recommend that accounting functions be reviewed once again to assure that controls are implemented to the extent possible. This is extremely important with the reduction in staff after year end.

### **Control over Water Usage Revenue.**

During the audit, we noted that there was a large discrepancy between the amount of gallons of water purchased compared to the gallons of water sold.

The discrepancy was a loss of approximate \$4,200,000 gallons or 13.7 percent. We believe this loss is in excess of what should be considered normal especially since at the time of the audit we were unable to obtain a complete explanation for the loss.

With the Authority trying to cover costs with sufficient rates it is important that the water sales projections be accurate as possible to estimate future revenues.

We recommend that a thorough study be made to determine what the loss represents. For examples is there a large leak, gallons being used but not paid for, inaccurate meter readings, conversion errors, etc.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the use of the management and the Board of the Lexington-Worth Townships Utilities Authority and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

July 2, 2004